



TO: North County Library Authority (NCLA) Commission

FROM: Marcie Scott, Liaison

DATE: October 18, 2021

SUBJECT: Communication Between City of Los Altos and NCLA Dated 10/11/21

Summary

During the August 30, 2021 Commission meeting, several concerns were raised about three issues relating to NCLA funds. The Commission asked the Ad Hoc Subcommittee consisting of Commissioner Epstein and Liaison Scott to draft a letter for President Fligor's signature and send to the City. This was completed and sent on October 11, 2021, and is attached along with the City's written response dated that same day.

Discussion

An analysis conducted by an outside third party determined in early 2021 that interest in the amount of \$58,977 was due to NCLA, which was paid at an amount determined appropriate by the City to NCLA in early August 2021. A question was raised whether interest should be paid on that sum dating back to October 2019 when the original fund transfer was made.

The second issue raised asks whether interest is due to NCLA from the City based on the City's practice beginning in early 2017 of holding the NCLA parcel tax funds as cash rather than depositing these funds in the NCLA LAIF account. It was estimated the interest earned on these funds could have been approximately \$60,000.

The third issue raised was NCLA has not received sufficient financial reports in the last two years.

Upon direction of the Commission, a letter was sent to the City Manager requesting City staff evaluate those issues. A response was received and is attached.

Recommendation

It is recommended the Commission review the information provided and determine if further action is necessary.

Attachments:

- 6a. Letter to City from NCLA dated October 11, 2021
- 6b. Letter from City to NCLA dated October 11, 2021



October 11, 2021

Mr. Gabe Engeland
City Manager
City of Los Altos
Via email: gengeland@losaltosca.us

Dear Mr. Engeland,

On behalf of the North County Library Authority (NCLA), I am writing to request your review of the following pending matters between the City of Los Altos and NCLA regarding the City's past oversight of NCLA finances. To the extent it is possible, NCLA requests the City review and make a determination on the issues described below. I have attached a letter dated May 21, 2021 written to your predecessor with the same requests. Resolution of these pending items would bring final closure to issues that have been unresolved for several years.

The City recently sent a check to NCLA covering unpaid interest earned from the pooling of certain specified NCLA funds in the City's PFM investment account during the period September 2016 to October 2019. It is our view that the City continued to earn interest on the unpaid interest (\$58,977) since the initial return of PFM principal plus interest was made on October 30, 2019. This is referred to in the attached letter as "interest on interest". **We ask the City to review this matter and apply interest compounded on the \$58,977 earned by the City during the period of October 30, 2019 (initial transfer) until the balance of interest owed was finally transferred on August 12, 2021, and return the earned "interest on interest" to NCLA.**

Secondly, for 32 years until May 2017, the City received NCLA parcel tax proceeds twice annually on behalf of NCLA, which the City then deposited into NCLA's LAIF account after paying the co-timed semi-annual billing from SCCLD. The deposit to NCLA's LAIF account of the remainder of NCLA's parcel tax proceeds generally was made within 30 days of the initial receipt of the parcel tax payment by the City. This routine procedure was adhered to by the City through the first parcel tax payment in 2017, with the last transfer to the NCLA LAIF account occurring in May 2017. In this way NCLA earned interest on their accumulated funds. In June of 2017, the City received the second NCLA parcel tax proceeds but held this money as cash and continued to do so with each subsequent NCLA parcel tax payment received by the City. For reference, the annual parcel tax revenue is just over one million dollars and the annual payments to SCCLD ranged from \$600,000/yr to \$725,000/yr. The NCLA Board was not informed of this change of procedure and was unaware NCLA parcel tax funds were not being deposited into the NCLA LAIF account. Over the course of several years, this could amount to measurable interest earnings that would have

Letter to City Manager Gabe Engeland
10/11/21

been earned by NCLA in their LAIF fund and which could then be applied to library operations. **Therefore, our second request is to calculate the interest earned from the City's holdings of NCLA parcel tax funds for over four years from May 2017 until August 12, 2021.** Past monthly LAIF interest rates the City earned in the City's LAIF account are readily and publicly available from LAIF. For this reason, we feel it will not be difficult to calculate the interest earned, and due to NCLA, on the NCLA parcel tax monies held by the City.

Lastly, NCLA has only recently seen a statement of some recent expenditures paid by the City using NCLA funds. We request annual financial statements, including Summary of Revenue and Expenses, and Transaction (Disbursement) Reports for FY 2018/19, FY 2019/20 and FY 2020/21. These statements may be sent to NCLA Liaison Marcie Scott.

Your attention to these requests is greatly appreciated and we look forward to a strong working relationship with you, City staff and the County Library District.

Sincerely,



Neysa Fligor
NCLA President

Attachment:

Letter dated 5/21/21 to Brad Kilger

Cc: NCLA Commissioners
NCLA Liaison



May 21, 2021

Mr. Brad Kilger
City Manager
City of Los Altos
Via email: bkilger@losaltosca.gov

Dear Mr. Kilger,

The NCLA Commission met on May 10th for their regular meeting to adopt the annual budget and conduct other business. The Commission discussed the pending request for unpaid interest (\$58,977) due from NCLA's PFM investment and the status of NCLA funds held by the City, funds NCLA's board had directed the City to transfer to NCLA's County account on June 26, 2019, now almost two years ago. At Monday's meeting, the Commission asked me to request an interim report from you on the progress that has been made to date.

As you may recall, on March 16, 2021 Mr. Russ Morreale sent you and Deputy City Manager Maginot a copy of his financial analysis and conclusions to be presented to the Commission. On March 24th, following the NCLA Commission meeting, another letter was sent to you and Mr. Maginot requesting a meeting as well as asking for your confirmation of the interest due to NCLA and the transfer of all NCLA funds from the City to the County. I've attached that letter again here for your referral. Additionally, in several communications NCLA has offered to schedule a meeting with City staff to review the analysis and answer questions. We encourage City staff to meet with our Ad Hoc Committee (myself, Russ Morreale and Marcie Scott) to ensure we can resolve these matters quickly.

The City communicated on April 26 that staff was working on NCLA's request including 'fixing NCLA Cash balances', 'posting interest amounts to NCLA', and 'transferring funds no later than June 30, 2021'. We are glad to hear this and we understand the City is under new management, but just to give you an understanding, we have received numerous communications from the City over the past two years, all giving a date two to three months in the future of when funds will be transferred or action taken. An interim report showing the status of the City's efforts confirming the analysis of PFM interest due, including 'interest on the interest' since October 2019, and the status of the NCLA funds transfer will be welcome. We would appreciate your staff's calculation of the interest due NCLA since June 2017 on the Cash holdings held by the City resulting from retaining NCLA parcel tax receipts rather than depositing the parcel tax money in NCLA's LAIF account (May 4, 2017 was the last deposit of parcel tax money to NCLA's LAIF account). Just as a reminder, demands for payment from NCLA funds are to be approved by the NCLA board prior to payment and authorized for payment by signature of the NCLA President (Neysa Fligor) and

Mr. Brad Kilger
RE: Resolution of NCLA matters

the NCLA Secretary (myself). We have not authorized any payment from the funds held at the City in FY20/21.

The Commission is anxious to bring closure to these issues which have remained unresolved for multiple years. If the City is not in agreement with the analysis we ask to be informed right away. The Commission wishes to express very directly their expectation to have full resolution of these issues as soon as possible. We (Russ, Marcie and myself) again request a meeting with you and Mr. Maginot.

Sincerely,



Suzanne Epstein
NCLA Secretary and Ad Hoc Committee Member

Cc: Jon Maginot, Deputy City Manager
NCLA Commission
Russ Morreale, Financial Project Advisor



**1 North San Antonio Road
Los Altos, California 94022-3087**

October 11, 2021

Neysa Fligor
NCLA Commission President
North County Library Authority

Dear President Fligor,

The City is in receipt of your letter dated October 11, 2021, in which the North County Library Authority (NCLA) Commission presents two claims for additional funds from the City of Los Altos.

With regards to the first statement that the City continued to earn "interest on interest," we ask that NCLA provide any supporting documentation to show that unpaid interest exists. Based on the City's review of information previously provided by NCLA, we have determined that this conclusion is erroneous. The City has provided all NCLA funds to the County of Santa Clara.

As to the second statement that NCLA is due additional interest based on funds not being deposited to the NCLA LAIF account, we believe that this action was done based on NCLA direction. On September 23, 2016, the NCLA Commission approved co-mingling NCLA funds with the City of Los Altos' investment portfolio. As the Commission is aware, based on this action by NCLA, funds received by the City would have then been placed into the City's account with PFM Asset Management.

As of August 13, 2021, the City of Los Altos has no NCLA funds in any account held by the City.

Sincerely,


Jon Maginot
Deputy City Manager

c: Gabriel Engeland, City Manager
NCLA Liaison